

Hello Everyone,

In 1970, Paramount Pictures released the movie, *Patton*. It won seven Academy Awards including Best Picture.

There is a scene early in the movie where General Patton (played by George C. Scott) leads America's first battlefield victory over the Germans--- and, in particular, Erwin (the desert fox) Rommel. At the end of the scene, Patton (who is overlooking the battlefield) smiles and cries out, "*Rommel (!), you magnificent b—stard, I read your book!*"

Here is the link <https://www.youtube.com/watch?v=AJXKVOxqkWM>

So, what does this have to do with finance?

The Federal Reserve has a book. Well, it's not exactly a book, but rather a series of speeches and "white papers" that outline what they want to do. The final chapter is about inflation.

I hope you find today's missive, and the inflation series, edifying.

Signed, Your We-Should-Read-More-Books Financial Advisor,

Greg

KKOB 04.22.2019 Student Loan Jubilee?

Bob: So, Greg, to recap. You believe the Federal Reserve is shifting its strategy.

Rather than directing money to the banks----they will try to direct money to the American people. You think their motivation is self-preservation. And, I can see that. The Fed is taking political heat over the gap between the rich and poor. President Trump pounds on them weekly. My question is ----how does the Fed push money to regular Americans vs. sending money to banks?

Greg: I can see several ways. Let's start with an easy one. Suppose all student loans were forgiven? The Fed could work hand-in-hand with the Treasury (and Congress) to declare a Student Loan Jubilee.

So, how does that push money to the American people? Well, let's say you were paying say \$800/month on your student loan; that's now \$800 in your pocket. Buy a new car. Take a vacation. Maybe you can qualify for a mortgage.

Bob: I can see how that would be wildly popular....especially going into an election year. Politicians would love this. But I know there's a downside...otherwise they'd have already done it.

Greg: Sure. Let's think America's finances. We all know about America's debts. But, Bob, America also has assets. We own national parks-- like Yellowstone. We own buildings, & tanks & jets & highways.

Anyway, once you get past what I'll call plant, equipment & land, the biggest asset on America's balance sheet is.....\$1.6 trillion in student loans. That's money owed to us—the taxpayers. After all, we floated the money for those educations.

Bob: I hadn't thought of it like that. But it makes sense. So, some guy who got his degree in *Adventure Education Studies*----and then never got a job, will get his debt forgiven. But it's the taxpayer who will eat it.

Greg: Right. But there's an even bigger issue. How does the US then fill that \$1.6 trillion hole that just disappeared from the ledger? Well, here's where the Fed could just print \$1.6 trillion, walk it across the street to the Treasury and make a deposit.

And....voila! Student loans are forgiven, the balance sheet is made whole, and everyone gets reelected. What's not to like?

Bob: But you just created \$1.6 trillion out of thin air. Won't that devalue the currency? Doesn't that mean prices rise? I mean, if

we do this-----we are really just having the greater society pay for the student loan write-off—it's just hidden through inflation.

Greg: Right again. Now there will be some lag-time between debt forgiveness and rising prices, so most people won't connect the two.

But, Bob, the reality is the *Powers-That-Be* want inflation. We need to deal with \$22 trillion in debt...and the age-old solution is to devalue---inflate it away. In the old days you –think Greeks and Romans---you just added base metals to gold and silver coins. Today, we just tap digits on a keyboard. Same principle though.

Anyway, so few people understand from whence inflation comes. So, Trump will blame Pelosi---and vice versa. Some will blame the Chinese, Putin, hackers, greedy billionaires, the Fed, you name it. People's heads will be spinning. These are old tricks.

Bob: And, I know where you're going with this...because I know you. You're not going to tell us not to rant or get upset. You're going to tell us to take advantage of the changes that you see coming.

Greg: I just believe when they tell you what's coming, you should believe them. some investments do very well in an inflationary environment. Inflation is not the end of the world. We went through this in the 70's and we're all still here. But while the overall market stalled big-time back then, other assets made some people very wealthy.

All I'm saying is the cycle is changing. They want inflation. OK. Got it. Therefore, adjust before everyone else does. And, I know I'm out of time, so next week, let's go over the term "**helicopter**

money” and explain how they’ve understood for a long time this day would come.

Bob: Sounds good. How do people reach you?

Greg: My phone number is 508-5550, 508-triple-5-zero. Or, just go to my website at zanettifinancial.com.

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